1.32 Investment of Surplus Funds Policy

Policy Owner	Executive Director Corporate & Commercial Services
Responsible Officer	Manager Finance
Date of Approval	01/07/2025
Amended/Revised	09/07/2025

Objective

1. To establish guidelines and principles for the investment of surplus funds held by the City of Albany. The policy aims to optimise returns on investments while ensuring the safety and security of public funds and compliance with relevant regulations.
2. Comply with all applicable legal, regulatory, and accounting requirements related to the investment of surplus funds.
   - Diversify investments to minimise risk and reduce exposure to any single deposit taking-institution.
   - Generate reasonable returns on investments, taking into consideration the risk appetite of Council and market conditions.
   - Maintain sufficient liquidity to mee the local government's operational and financial obligations.

Scope

3. The local government's operational and financial obligations.

Policy Statement

4. Investments are limited to authorised institutions, in accordance with Local Government (Financial Management) Regulations Section 19C, being:
   - Authorised deposit-taking institution as defined in the *Banking Act 1959* (Commonwealth) section 5; or
   - The Western Australian Treasury Corporation established by the *Western Australian Treasury Corporation Act 1986.*
5. Deposits are limited to authorised deposit taking institutions that have an office presence in Albany.
6. The only types of authorised investments under *Local Government Act 1995* - section 6.14(1), and *Local Government (Financial Management) Regulations 1996* – Regulation 19C, are as follows:
   - Deposits with an authorised institution and the term is to be no more than 3 years;
   - Bonds that are guaranteed by the Commonwealth Government, or a State or Territory government with a term to maturity of up to 3 years; and
   - Australian currency only.
7. This investment policy prohibits any investment carried out for speculative purposes including:

Derivative based instruments;

- Principal only investments or securities that provide potentially nil or negative cash flow; and
- Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind.

8. This policy also prohibits the use of leveraging (borrowing to invest).
9. The City will use Standard & Poor's Long-Term Issue Credit Ratings when assessing an authorised investment institution. **Appendix A** outlines the definitions of Standard & Poor's Long-Term Issue Credit Ratings.
10. If any investments are downgraded such that they no longer fall within the investment policy, they will be divested as soon as practicable. Investments with a term greater than 12 months are to be reviewed on a regular basis.

11. A monthly report will be provided to Council that will detail the investment portfolio in terms of holdings and impact of changes in market value since the previous report. The monthly report will also detail the investment income earned versus budget year to date and confirm compliance of.

12. Council's investments within legislative and policy limits. Council may nominate additional content for reporting.

13. The CEO is delegated to administer the Investment of Surplus Funds Policy under section 6.10 of the Local Government Act 1995, and as prescribed in regulation 19 of the *Local Government (Financial Management) Regulations 1996.*

14. Officers shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. This policy requires officers to disclose any conflict of interest to the CEO.

15. Investments obtained are to comply with three key criteria relating to:

A. Portfolio Credit Framework

16. Limit overall exposure of the portfolio as a whole, according to credit rating.

17. To control the credit quality on the entire portfolio, the following credit framework limits the percentage of the portfolio exposed to any particular credit rating category.

S&P Long Term Rating	Maximum % in Credit Rating Category
AAA or AA	100%
A	60%
BBB	40%

B. Counterparty Credit Framework:

18. Limit exposure to individual counterparties /institutions, based on credit rating.

19. Exposure to an individual counterparty/institution will be restricted by its credit rating so that single entity exposure is limited, as detailed in the table below.

S&P Long Term Rating	Maximum % in one authorised institution
AAA or AA	35%
A or BBB	20%

C. Term to Maturity Framework:

20. Limits based upon maturity of securities to ensure adequate working capital needs are met.

21. The investment portfolio is to be invested within the following maturity constraints:

Authorised Institution Investments	Min	Max
0 to 3 months	15%	100%
3 to 6 months	-	60%
6 to 12 months	-	40%
12 to 24 months	-	20%
24 to 36 months	-	10%

Government Bond Investments	Min	Max
0 to 3 months	-	20%
3 to 6 months	-	20%
6 to 12 months	-	20%
12 to 24 months	-	20%
24 to 36 months	-	10%

D. Environmentally and socially responsible investments:

22. Investing in environmentally and socially responsible investments is preferred by the City, but is not a mandatory requirement. The necessity being to select the investment that best meets the City's overall investment objectives.

Legislative and Strategic Context

23. Legislation covering investment of surplus funds includes:

- *Local Government Act 1995* Section 6.14.
- *Local Government (Financial Management) Regulations 1996* – Regulation 19 and 19C.
- *The Banking Act 1959* (Commonwealth).
- *The Western Australian Treasury Corporation Act 1986*
- Australian Accounting Standards.

24. This policy relates to the following elements of the City of Albany Strategic Community Plan:

- **Pillar:** Leadership.
  - Outcome: Strong workplace culture and performance.
- **Pillar**: Prosperity.
  - Outcome: Attract, retain and support a diverse range of businesses and industries to grow the economy and create more local jobs.
- **Pillar**: Planet.
  - Outcome: Develop a sustainable, low waste, circular economy.

Review Position and Date

25. This policy is to be reviewed by the document owner every two years.

Appendix A - Standard & Poor’s Rating Guide

Long-Term Issue Credit Ratings*	
Category	**Definition**
AAA	An obligation rated 'AAA' has the highest rating assigned by S&P Global Ratings. The obligor's capacity to meet its financial commitments on the obligation is extremely strong.
AA	An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitments on the obligation is very strong.
A	An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitments on the obligation is still strong.
BBB	An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its financial commitments on the obligation.
BB, B, CCC, CC, and C	Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposure to adverse conditions.
BB	An obligation rated 'BB' is less vulnerable to non-payment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions that could lead to the obligor's inadequate capacity to meet its financial commitments on the obligation.
B	An obligation rated 'B' is more vulnerable to non-payment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitments on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments on the obligation.
CCC	An obligation rated 'CCC' is currently vulnerable to non-payment and is dependent upon favourable business, financial, and economic conditions for the obligor to meet its financial commitments on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitments on the obligation.
CC	An obligation rated 'CC' is currently highly vulnerable to non-payment. The 'CC' rating is used when a default has not yet occurred, but S&P Global Ratings expects default to be a virtual certainty, regardless of the anticipated time to default.
C	An obligation rated 'C' is currently highly vulnerable to non-payment, and the obligation is expected to have lower relative seniority or lower ultimate recovery compared with obligations that are rated higher.
D	An obligation rated 'D' is in default or in breach of an imputed promise. For non-hybrid capital instruments, the 'D' rating category is used when payments on an obligation are not made on the date due, unless S&P Global Ratings believes that such payments will be made within five business days in the absence of a stated grace period or within the earlier of the stated grace period or 30 calendar days. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions. A rating on an obligation is lowered to 'D' if it is subject to a distressed debt restructuring.
***Ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the rating categories.**	

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